



INDUSTRY CIRCULAR

**DEPARTMENT OF
THE TREASURY**

Bureau of Alcohol, Tobacco and Firearms

Washington, D.C. 20226

Number:

79-13

Date: October 15, 1979

CONVERSION OF CONTROLLED STOCK AND BULK WINES TO BONDED STOCK

Proprietors of distilled spirits plants and
others concerned:

Purpose. This circular is to inform industry members of the procedure by which distilled spirits plant proprietors may elect to convert controlled stock and bulk wine to bonded stock upon the effective date of the Distilled Spirits Tax Revision Act of 1979. An ATF Procedure will be published shortly which will read substantially as follows.

The Distilled Spirits Tax Revision Act of 1979, enacted to approve and implement the trade agreements negotiated under the Trade Act of 1974, establishes an all-in-bond system for distilled spirits plants. After January 1, 1980, distilled spirits tax shall be calculated at the rate of \$10.50 on each proof gallon and proportionately on all fractional parts of a proof gallon. Rectification tax on distilled spirits is repealed by this Act. In general, the tax on distilled spirits shall be determined when the spirits are withdrawn from bond. All distilled spirits plant operations shall be conducted on bonded premises. Section 808 of the Act provides that proprietors may elect to convert to bonded stock any controlled stock or bulk wine on DSP premises at the beginning of business on January 1, 1980. Proprietors may be given, without interest, credit or refund for any distilled spirits, wine, or rectification taxes previously paid or determined on controlled stock or bulk wine which is converted to bonded stock. Products which are converted shall become distilled spirits or wine in bond on which tax has not been paid or determined.

Proprietors shall file final tax returns and pay applicable taxes on distilled spirits which have been withdrawn from bond and on which the tax has not been

paid by the close of business December 31, 1979. Proprietors shall file final returns no later than January 15, 1980, on ATF Forms 4077, 2527, and 2522 to satisfy outstanding liabilities.

Taxpaid spirits and bulk wines on distilled spirits plant premises on December 31, 1979, and spirits which become taxpaid on January 1, 1980, may be retained on bonded premises during calendar year 1980. Such spirits must be segregated from bonded spirits and appropriate records must be kept.

Proprietors may convert controlled stock and bulk wines. For controlled stock and bulk wines which are converted the proprietor may take credits to offset taxes to be paid with the final returns. Excess credit may be applied to any subsequent returns required to be filed.

Proprietors who elect to convert all or part of their controlled stock and bulk wine to bonded stock shall establish the amount of tax to be credited or refunded on the products to be converted in accordance with the following procedures.

- (1) A physical inventory of all distilled spirits which were designated as controlled or taxpaid stock on December 31, 1979, and bulk wine on distilled spirits plant premises shall be taken to establish the quantities of each to remain on bonded premises after December 31, 1979, and to provide the basis for filing final returns and a final claim for operational loss. The inventory shall differentiate between products to be converted to bonded stock and taxpaid products that will remain on bonded premises. Records of the inventory shall be prepared and shall indicate the amount of taxes paid or determined on spirits and wines in the products to be converted. All inventory records shall be in sufficient detail to enable ATF officers to verify the amount of any tax to be credited or returned.
- (2) The amount of tax to be credited or refunded on products converted to bonded stock shall be established as follows:

- (i) The tax on products containing only distilled spirits shall be established by determining the quantity and proof of such products and calculating the proof gallons and tax therefrom. Case markings may be used to establish the tax on bottled products.
- (ii) The tax on bulk wine shall be established by determining the quantity in wine gallons of each tax rate of wines to be converted, and calculating the total tax of all wines therefrom.
- (iii) The tax on products containing alcoholic ingredients, other than distilled spirits which were withdrawn from bond on payment or determination of tax, shall be established on the basis of the formulation under which such products were manufactured. The amount of tax to be credited shall be the taxes which were actually paid or determined on the distilled spirits and wines contained in the product, plus applicable rectification tax. The taxes on spirits and wines in these products shall be established as follows:
 - (a) The taxes actually paid or determined may be calculated for the spirits and wines contained in each lot (batch) of product bottled, and therefrom, taxes to be credited or refunded may be established for any part of the lot remaining in the controlled stock to be converted.
 - (b) The taxes on products, regardless of kind or brand, which are manufactured under a standard formulation, i.e., always manufactured with the same amount of spirits and wines, may be established by calculating the actual rate of taxes paid or determined on the spirits and wines in a typical product and then applying the rate to

all such products remaining in the controlled stock to be converted.

- (c) The taxes on products that are formulated with varying amounts of spirits and wines may be established by first determining the total wines (at each tax rate) and the total spirits used in each product, from July 1, 1979, to September 30, 1979, calculating from the totals an average rate of taxes paid or determined on the spirits and wines in the product, and then applying the average rate to the remaining product in the controlled stock to be converted. If the product to be converted was not manufactured during the period from July 1, 1979, to September 30, 1979, the proprietor may make the same calculations from the last batch of the product produced prior to July 1, 1979.
- (3) The total distilled spirits, wine, and rectification taxes paid or determined, may be refunded on filing of a proper claim on Form 843 or taken as a credit on any filed return. Credit for converted stock may be taken on returns without filing a claim for credit on ATF Form 2635.

Inquiries. Inquiries regarding this circular should refer to its number and be addressed to the Assistant Director (Regulatory Enforcement), Bureau of Alcohol, Tobacco and Firearms, 1200 Pennsylvania Avenue, NW., Washington, DC 20226.

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Director

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